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IN THE

Supreme Court of the United States

OCTOBER TERM, 1995

SEBASTIAN INTERNATIONAL, INC.,
Petitioner,
vs.
LONGS DRUG STORES CORPORATION,
Respondent.

PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

PETITION FOR WRIT OF CERTIORARI

EVAN FINKEL
Counsel of Record

Of Counsel
RICHARD H. ZAITLEN
SAMUEL L. ALBERSTADT

SPENSLEY HORN JUBAS & LUBITZ

1880 Century Park East, Suite 500
Los Angeles, CA 90067-1605
(310) 553-5050

Counsel for Petitioner
SEBASTIAN INTERNATIONAL, INC.

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QUESTION PRESENTED

Whether the judicially created "first sale" doctrine — which provides that once a trademarked article is sold by the mark's owner, the owner's rights in that article are exhausted — exonerates violations of Sections 32(1) and 43(a) of the Lanham Act, which prohibit trade practices that include misrepresentations to the public and conduct likely to cause consumer confusion.

PARTIES TO THE PROCEEDINGS

The parties to the proceedings below were petitioner Sebastian International, Inc. and respondent Longs Drug Stores Corporation.[1]

Sebastian International, Inc. has no parent companies, partially owned subsidiaries or affiliates that have issued shares of stock to the public, except as follows: Wella Capital, Inc., a Delaware corporation, owns 100% of the stock of Wella U.S.A. Corp., a Delaware corporation. Wella Capital, Inc. owns a majority of the stock of Sebastian International, Inc.

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[1] An *amici curiae* brief was filed in the court of appeals below. Costco Wholesale Corporation, the Price Company and The National Association of Chain Drug Stores filed the brief in support of respondent Longs Drug Stores Corporation.

TABLE OF CONTENTS

Page

QUESTION PRESENTED i

PARTIES TO THE PROCEEDINGS ii

LIST OF APPENDICES. iv

TABLE OF AUTHORITIES. v

OPINIONS BELOW 1

JURISDICTION 1

STATUTORY PROVISIONS INVOLVED 2

STATEMENT OF THE CASE 2

REASONS FOR GRANTING THE PETITION . . 6

I. THE NINTH CIRCUIT DECISION IS AN UNWARRANTED EXTENSION OF THIS COURT'S PRECEDENTS AND CONFLICTS WITH THE PLAIN LANGUAGE OF THE LANHAM ACT 7

II. THE NINTH CIRCUIT DECISION CONFLICTS WITH THE FIFTH AND FEDERAL CIRCUITS 11

III. THE NINTH CIRCUIT DECISION PRESENTS A JUSTICIABLE AND IMPORTANT QUESTION OF FEDERAL LAW . . .14

CONCLUSION. 16

Page

LIST OF APPENDICES

APPENDIX A

OPINION, Ninth Circuit Court of Appeals, Filed May 8, 1995 . . . . . A1

APPENDIX B

ORDER, Ninth Circuit Court of Appeals, Filed July 20, 1995 . . . . . B1

APPENDIX C

ORDER Re Plaintiff's Motion for Preliminary Injunction, United States District Court Central District of California, Filed May 11, 1994 . . . . . C1

APPENDIX D

Statutory Provisions Involved

15 U.S.C. § 1054 . . . . . D1

15 U.S.C. § 1114(1) D2

15 U.S.C. § 1125(a)(1) D4

TABLE OF AUTHORITIES

Page

Cases

Bill Blass, Ltd. v. SAZ Corp.,
751 F.2d 152 (3d Cir. 1984) 10

Champion Spark Plug Co. v. Sanders,
331 U.S. 125 (1947) 8

Continental TV, Inc. v. GTE Sylvania, Inc.,
433 U.S. 36 (1977). 12

El Greco Leather Products Company v.
Shoe World, Inc.,
806 F.2d 392 (2d Cir. 1986) 10

F.R. LePage Bakery v. Roush Bakery
Products Company,
851 F.2d 351 (Fed. Cir. 1988) *withdrawn,*
vacated and remanded, 863 F.2d 43
(Fed. Cir. 1988), *vacated and modified,*
13 U.S.P.Q.2d 1045 (TTAB 1989) 15, 16

General Electric Company v. Speicher,
877 F.2d 531 (7th Cir. 1989). 10

In re Stencel Aero Engineering Corp.,
170 U.S.P.Q. 292 (TTAB 1971) 15, 16

Keeler v. Standard Folding Bed Company,
157 U.S. 659 (1895) 13

Mallinckrodt, Inc. v. Medipart, Inc.,
976 F.2d 700 (Fed. Cir. 1992) 13, 14

Page

Matrix Essentials, Inc. v. Emporium
Drug Mart, Inc.,
988 F.2d 587 (5th Cir. 1993). 4-6, 12

Monte Carlo Shirt, Inc. v. Daewoo
International (America) Corp.,
707 F.2d 1054 (9th Cir. 1983) 10

NEC Electronics v. CAL Circuit Abco,
810 F.2d 1506 (9th Cir. 1987) 6

Pacific & Southern v. Satellite Broadcast Networks,
694 F. Supp. 1565 (N.D. Ga 1988). 10

Prestonettes, Inc. v. Coty,
264 U.S. 359 (1924) 5-7, 9, 11, 16

Qualitex Company v. Jacobson Products, Inc.,
115 S. Ct. 1300, 131 L.Ed.2d 248 (1995). 16

Shell Oil Company v. Commercial Petroleum, Inc.,
928 F.2d 104 (4th Cir. 1991). 10

Supreme Assembly, Order of Rainbow for Girls
v. J. H. Ray Jewelry Company,
676 F.2d 1079 (5th Cir. 1982) 12

Trans Sport, Inc. v. Sportswear, Inc.,
964 F.2d 186 (2d Cir. 1992) 11

Two Pesos, Inc. v. Taco Cabana, Inc.,
112 S.Ct. 2753, 120 L.Ed.2d 615 (1992) 11

Page

Miscellaneous

S. Rep. No. 1333, 79th Cong., 2d Sess. (1946) 12

Trademark Manual of Examining Procedure
§ 1304.05 15

Statutes

15 U.S.C. § 1054 2
15 U.S.C. § 1114(1) 2, 4
15 U.S.C. § 1121 4
15 U.S.C. § 1125(a) 2, 4, 9, 10
28 U.S.C. § 1254(1) 1
28 U.S.C. § 1331 4
28 U.S.C. § 1338 4
23 U.S.C. § 2101(c) 1

Rules

United States Supreme Court Rule 13.4 1

No. _____

In The
SUPREME COURT OF THE UNITED STATES
October Term, 1995

SEBASTIAN INTERNATIONAL, INC.,
Petitioner,
vs.
LONGS DRUG STORES CORPORATION,
Respondent.

PETITION FOR WRIT OF CERTIORARI

OPINIONS BELOW

The opinion of the court of appeals (App. A) is reported at 53 F.3d 1073. The opinion of the district court (App. C) is reported at 30 U.S.P.Q.2d 1785.

JURISDICTION

The court of appeals entered its judgment on May 8, 1995 (App. A). This petition is filed within 90 days of entry of judgment pursuant to 28 U.S.C. § 2101(c) and United States Supreme Court Rule 13.4. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

The principal statutory provisions involved in the case are Sections 4, 32(1) and 43(a)(1) of the Lanham Act, 15 U.S.C. §§ 1054, 1114(1), and 1125(a)(1). The provisions of the statutes are included *verbatim* in Appendix D.

STATEMENT OF THE CASE

1. This case concerns the relationship between the judicially created "first sale" doctrine and Sections 32(1) and 43(a) of the Lanham Act, which prohibit misrepresentations and trade practices likely to cause consumer confusion. The first sale doctrine holds that once a trademarked article is sold by the mark's owner, the owner's rights in the article are exhausted.

The issue here is whether the first sale doctrine supersedes the literal language of the Lanham Act. If it does, then a reseller of genuine goods can misrepresent facts and even confuse the public as to the source of goods or as to the identification of members of a collective organization — all without liability.

2. Sebastian International, Inc. ("Sebastian") is a leading manufacturer of professional hair care products sold only in establishments like salons, which employ licensed cosmetologists trained in the correct selection and use of Sebastian products. Sebastian has never sold its products through retail outlets such as drug stores or department stores. In order to ensure that its professional products are sold only in salons that employ trained, competent individuals, Sebastian requires its distributors to sign written contracts whereby they agree not to sell Sebastian products to anyone other than qualified salons.

Notwithstanding these agreements and Sebastian's efforts to ensure that its products are sold only in salons with licensed cosmetologists, Sebastian's products have appeared on the shelves of retail establishments like drug stores.

To combat the diversion of its products to unqualified retailers and to better serve its clients, in 1992 Sebastian formed the "Sebastian Collective Salon Membership Program" (the "Collective"). In order to become a member of the Collective, salons and distributors must be trained in the use of Sebastian products and must agree not to sell Sebastian products to entities other than members of the Collective or member salons' clientele.

In 1993, Sebastian registered "Sebastian Collective Salon Member" as a collective membership mark with the United States Patent and Trademark Office (the "PTO"). Federal Registration No. 1,787,663 covers the word component of the mark and Federal Registration No. 1,787,664 covers a design component of the mark. The mark (the words or the design or both) is prominently displayed on posters, signage and in various advertisements. It is also placed on Sebastian's products and signifies that the entity distributing or offering the products for sale is a member of the Collective and has been trained in the proper use of Sebastian products. The district court found that extensive use of the collective mark created consumer awareness that the mark denotes membership in the Sebastian Collective. (App. C3). The district court also found that the public was confused about whether Longs was a collective member, which it is not. The district court further found that the manner in which Longs exhibited and sold the Sebastian products constituted an actionable misrepresentation. (App. C10).

3. Longs Drug operates a large chain of drug stores which include cosmetics departments. Longs employs

no licensed cosmetologists, nor are Longs' employees otherwise trained in Sebastian's products. Longs does not perform the quality control which is a hallmark of the Collective program. Longs purchases and resells Sebastian products bearing the collective membership mark, although it is not a member of the Sebastian Collective. As the Ninth Circuit noted, "Longs presumably purchases such products from a salon or distributor in violation of their agreement with Sebastian." (App. A2).

4. Sebastian sued Longs in the United States District Court for the Central District of California.[1] The lawsuit was filed on May 18, 1993, alleging violations of the Lanham Act, 15 U.S.C. §§ 1114(1), 1125(a). Sebastian filed a motion for a preliminary injunction to enjoin Longs' sales of Sebastian products bearing the collective mark, which was granted.

In its detailed written order and opinion (App. C), the district court made various findings, including:

- that consumer confusion was likely;
- that Sebastian's collective mark was likely valid;
- that the first sale doctrine should not be applied in a "rote" manner; and
- that, unlike *Matrix Essentials, Inc. v. Emporium Drug Mart, Inc.*, 988 F.2d 587 (5th Cir. 1993) and other first sale doctrine cases relied upon by Longs, misrepresentations and likelihood of confusion were present.[2]

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[1] *Sebastian Int'l, Inc. v. Longs Drug Store Corp.*, Case No. 93-2891 WDK (EEx). The complaint alleged jurisdiction based upon 15 U.S.C. § 1121 and 28 U.S.C. §§ 1331, 1338.

[2] *Matrix* possesses an appealing similarity to the present case. In *Matrix*, defendant Emporium purchased plaintiff Matrix's goods and resold them without authorization. Moreover, Matrix manufactured

(continued)

5. On appeal, the Ninth Circuit overturned the preliminary injunction. The crux of its ruling, based upon *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924), was that "Courts have consistently held that, with certain well-defined exceptions, the right of a producer to control distribution of its trademarked product does not extend beyond the first sale of the product." (App. A3-4).

The Ninth Circuit objected to Sebastian attempting to control "the downstream distribution of its products to the ultimate consumers and eliminating 'diversion' to unauthorized retailers." (App. A5). The appellate court concluded that the first sale doctrine "is not rendered inapplicable merely because consumers erroneously believed the reseller is affiliated with or authorized by the producer." (App. A6).

The Ninth Circuit held that the first sale doctrine was well established long before Congress authorized the registration of collective marks in the 1946 Lanham Act. (App. A5). The Ninth Circuit then justified its decision by explaining that the legislative history of the Act was silent on the issue of providing a trademark owner with a method of controlling downstream sales of its products. *Id.*

To rebut Sebastian's argument that the first sale doctrine should not apply, the Ninth Circuit relied on its

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(fn. continued)
and sold specialty hair care products to be resold through salons only, just like petitioner here. Two critical differences exist, however. First, in *Matrix* there was no consumer confusion nor any misrepresentation. Here, the district court found both consumer confusion and misrepresentation. (App. C10). Second, the Fifth Circuit, unlike the Ninth Circuit, approved of restraints on resales, but declined to impose any restraints, as there was no finding of confusion. Here, the Ninth Circuit disapproved of any restraints on the grounds that the first sale doctrine precluded them regardless of a finding of confusion. (App. A4-5).

own decision in *NEC Electronics v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir. 1987), and particularly the Fifth Circuit decision in *Matrix, supra*.

Without a discussion of the evidence, the Ninth Circuit overlooked the distinction between collective membership marks and trademarks, and was silent on the district court finding that Longs had sold defective products in a manner resulting in a misrepresentation that violated the Lanham Act. Thus, contrary to the Sebastian survey establishing public confusion, on which the Ninth Circuit was also virtually silent, and contrary to the district court's findings of Longs' misrepresentations in the merchandising of the Sebastian products, the Ninth Circuit refused to find that Longs was "misrepresenting that it is part of, or associated or affiliated with, the Collective, as well as Sebastian." (App. A8 n.8).[3]

REASONS FOR GRANTING THE PETITION

Not only is the Ninth Circuit decision a mutation of this Court's precedent in *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924), it is contrary to the plain language and policies of Section 43(a) of the Lanham Act and exalts the rights of an infringer over those of the public and the trademark owner. It also conflicts with intellectual property law in other circuits, and follows the economic presuppositions of antitrust dogma this Court rejected two decades ago.

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[3] In an abbreviated concurrence (App. A9-10), Judge Ferguson concluded that the Sebastian collective membership mark was invalid, because Sebastian was a member of the Collective. Judge Ferguson's opinion is discussed below, and is not an impediment to this Court granting *certiorari*.

A trademark owner can no longer establish a violation of the literal language of Section 43(a) of the Lanham Act and be assured of protection. When the owner of a mark establishes infringement because of the public's likelihood of confusion and a defendant's affirmative misrepresentation, *per se* application of the first sale doctrine is improper. Otherwise, trademark law cannot protect the public or the trademark owner.

I.

THE NINTH CIRCUIT DECISION IS AN UNWARRANTED EXTENSION OF THIS COURT'S PRECEDENTS AND CONFLICTS WITH THE PLAIN LANGUAGE OF THE LANHAM ACT

This Court adopted the first sale doctrine in *Prestonettes v. Coty*, 264 U.S. 359 (1924). The Court held that Coty, a manufacturer of face powder, could not sue under the Trademark Act of 1905 (the predecessor to the Lanham Act) to prevent Prestonettes from labeling its compact as containing genuine Coty face powder. Coty was a federally registered trademark. In the words of Justice Holmes:

> When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth. It is not taboo.

264 U.S. at 368.

In essence, the Court simply held that "collateral reference to [another's] mark" would be permitted in appropriate circumstances. *Id.* at 369. It did not condone public confusion or misrepresentations.

The Court re-visited the issue of collateral use of a trademark in *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125 (1947). There, Sanders reconditioned and resold used Champion sparkplugs. This Court permitted Sanders to continue using the Champion name on the sparkplugs, but only under the limitation that the plugs were identified as "used" or "repaired." A general disclaimer was required of the cartons containing the sparkplugs. 331 U.S. at 130.

Neither decision of this Court, separately or together, articulated the broad rule now instituted by the Ninth Circuit, which has extended the first sale doctrine to condone conduct expressly and literally prohibited by the Lanham Act — i.e., conduct resulting in misrepresentations to the purchasing public and a likelihood of consumer confusion.

Trademark law is based on the assumption that, without some mechanism to permit an informed consumer choice, meaningful competition would be extremely limited, as would the consumer's knowledge and ability to choose. Trademarks function more broadly than a simple identifier, because they protect the consumer from deception while rewarding a trademark owner for his commercial efforts. Indeed, Section 43(a) of the Lanham Act is very broad:

> Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof . . . or false or misleading representation of fact, which (a) is likely to cause confusion or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to

> the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person . . . shall be liable in a civil action. . . .

15 U.S.C. § 1125(a)(1).

That language clearly covers the misrepresentations and confusion for which the district court held Longs responsible. As the district court found, Longs misrepresented the quality of the Sebastian product and confused the public as to Longs' membership in the Sebastian Collective. (App. C10).

With a wave of the first sale doctrine, the Ninth Circuit absolved Longs. The appellate court never held that the district court abused its discretion or made any clearly erroneous findings. In fact, it appeared to concede that Sebastian had established a likelihood of confusion. "The 'first sale' rule is not rendered inapplicable merely because consumers erroneously believed the reseller is affiliated with or authorized by the producer." (App. A6). However, the Ninth Circuit ignored Justice Holmes' admonition in *Prestonettes* that the use of a trademark must be truthful.

To prevent the first sale doctrine from swallowing the Lanham Act, numerous jurisdictions have drawn the boundary at potential consumer confusion. If a trademark is altered; if trademarked goods are altered; if a license has been terminated; if quality control is not maintained; if a trademark owner rejects goods, even wrongfully; if a television program is rebroadcast by satellite with the unlicensed use of a station's trademarked call letters; or if a genuine trademarked product is sold without warnings or instructions — all of these situations can result in violations of the Lanham

Act despite the first sale doctrine.[4]

Ninth Circuit authority conflicts with this line of cases. For example, the Ninth Circuit has held that when a trademark owner contracted to manufacture shirts to plaintiff's specifications and bearing plaintiff's trademark, and the trademark owner rejected the goods as untimely delivered, the manufacturer did not infringe the trademark when it sold the shirts to discount retailers. *See Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp.*, 707 F.2d 1054 (9th Cir. 1983). *Contra, Bill Blass, Ltd. v. SAZ Corp.*, 751 F.2d 152 (3d Cir. 1984) (preliminary injunction against sales of authentic but out of date goods creates a likelihood of confusion).

The Ninth Circuit has now stretched the first sale doctrine beyond all reasonable bounds.

Despite a survey that established likelihood of confusion, Longs' deliberate purchase of goods from a supplier known to be in breach of its contract with Sebastian, and Longs' misrepresentations as found by the district court, the Ninth Circuit said there still was no violation of 15 U.S.C. § 1125(a). The court of appeals rejected a clear showing that the public was likely to be confused and that Sebastian would be harmed in favor of a *per se* rule that to "stock, display, and resell a producer's product under the producer's trademark" cannot violate the Lanham Act. (App. A6).

By imposing the first sale doctrine over an infringement established by both misrepresentation and the

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[4] *See, e.g., General Electric Company v. Speicher*, 877 F.2d 531, 534 (7th Cir. 1989); *Shell Oil Company v. Commercial Petroleum, Inc.*, 928 F.2d 104 (4th Cir. 1991); *El Greco Leather Products Company v. Shoe World, Inc.*, 806 F.2d 392 (2d Cir. 1986); *Pacific & Southern v. Satellite Broadcast Networks*, 694 F. Supp. 1565, 1573-74 (N.D. Ga 1988).

likelihood of consumer confusion, the Ninth Circuit has created a problem similar to that in *Two Pesos, Inc. v. Taco Cabana, Inc.*, 112 S.Ct. 2753, 120 L.Ed.2d 615, 627 (1992). In short, the court of appeal's automatic application of the first sale doctrine "would hinder improving or maintaining the producer's competitive position." If the trademark laws are to protect consumers and producers and sellers alike, thought should be applied to the situation before the protection of competition is, without meaningful analysis, automatically chosen over consumer confusion and restriction of the trademark owner's rights. To do otherwise neglects the broad scope and purpose of the Lanham Act.

The Ninth Circuit has fundamentally transformed *Prestonettes*. Seventy years ago this Court delimited the bounds of a retailer's conduct, requiring a disclaimer and "the truth." 264 U.S. at 368. In the decision below, the court of appeals would require neither, thereby negating *Prestonettes* and the cases that have followed it.

II.

THE NINTH CIRCUIT DECISION CONFLICTS WITH THE FIFTH AND FEDERAL CIRCUITS

Decisions by other circuits are directly at odds with the Ninth Circuit. The appellate court premised its use of the first sale doctrine on a complete prohibition of vertical restraints on the resale of a product. That notion has been rejected by the Fifth and Federal Circuits.[5]

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[5] The district court judge explicitly held that Sebastian had not violated the antitrust laws, *citing Trans Sport, Inc. v. Sportswear, Inc.*, 964 F.2d 186 (2d Cir. 1992) on the validity of resale restrictions. (App. C12).

Indeed, the Ninth Circuit's reliance on *Matrix* distorts what in essence is conflicting authority.

In *Matrix*, the Fifth Circuit dismissed an antitrust counterclaim premised on restricted distribution. 988 F.2d at 593-94. The Fifth Circuit expressly relied on this Court's decision in *Continental TV, Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977), which eliminated *per se* antitrust violations due to vertical restraints. The Ninth Circuit effectively used trademark law to constrict trade more narrowly than the antitrust laws, when Congress said the trademark laws should be interpreted as broadly as possible. S. Rep. No. 1333, 79th Cong., 2d Sess., 6 (1946).

Matrix actually was decided on a different basis than the Ninth Circuit's rationale for applying the first sale doctrine to downstream sales by independent parties. The Ninth Circuit embraced the notion of fostering competition at the expense of consumers and competitors. The only reason Matrix's trademark case failed was the absence of a likelihood of confusion, 988 F.2d at 592-93; it had nothing to do with competitive restraints, *id.* at 593-94. In stark contrast, Sebastian established a likelihood of confusion by the public.

Moreover, *Matrix* is consistent with an earlier Fifth Circuit case, involving a collective membership mark, which again intimated that under similar facts, with a likelihood of confusion, a Lanham Act violation would have been found. *See Supreme Assembly, Order of Rainbow for Girls v. J. H. Ray Jewelry Company*, 676 F.2d 1079 (5th Cir. 1982) (no trademark infringement or false designation of origin because no likelihood of confusion found).

The Ninth Circuit apparently adopted Longs' argument that the patent and copyright laws possess a narrow first sale doctrine that should also be applied to trademarks. That assertion is incorrect, as evidenced by

the Federal Circuit decision in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992). There, the Federal Circuit permitted the patentee to control the resale of its patented product, just like Matrix did with its trademarked goods. Consequently, the Federal Circuit, like the Fifth, conflicts with the Ninth.[6]

The Ninth Circuit accused Sebastian of unfairly trying to extend its trademark rights, simply by virtue of trying to control downstream sales of its products. Unlike the Ninth Circuit, however, the Federal Circuit has refused to apply *per se* the first sale doctrine. "Where an anti-competitive effect is asserted, the *rule of reason* is the basis of determining the legality. . . ." 976 F.2d at 706 (citations omitted, emphasis added).

The Federal Circuit emphasized that the purchaser of an article embodying an intellectual property right could use or resell the device without restriction *if* that device had been sold "*without any conditions.*" *Id.* at 707, *citing Keeler v. Standard Folding Bed Company*, 157 U.S. 659, 663 (1895) (original emphasis). But Sebastian, like Mallinckrodt, should be free to establish conditions. To the extent the Ninth Circuit has limited those conditions, it has placed itself in direct conflict with the Federal Circuit.

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[6] In *Mallinckrodt*, plaintiff sold its patented devices to hospitals, which after initial use of the devices sent them to Medipart for servicing so as to enable the hospitals to use the devices again. This violated Mallinckrodt's "single use only" restriction of its sales. Mallinckrodt claimed that Medipart thus "induced" infringement by the hospitals and also infringed the patent itself. The district court held that no conditions could be imposed on patented goods after their sale, and that Mallinckrodt's restriction could not convert into a license what was in substance actually a sale. 976 F.2d at 703. On appeal, this was overturned.

In closing its analysis of the *Mallinckrodt* case, the Federal Circuit adhered to an analytical framework not unlike the fair use of copyrights.

> Anticompetitive effects that are not *per se* violations of law are reviewed in accordance with the *rule of reason.* Patent owners should not be in a worse position, by virtue of the patent right to exclude, than owners of other property used in trade.

976 F.2d at 708 (emphasis added). Neither should trademark owners.

Clearly there is a conflict between the Ninth Circuit and the Fifth and Federal Circuits about how infringement is impacted by post-sale limitations on the product embodying the intellectual property right. That conflict requires resolution by this Court.

III.

THE NINTH CIRCUIT DECISION PRESENTS A JUSTICIABLE AND IMPORTANT QUESTION OF FEDERAL LAW

The question raised here is important. Without a clarification by this Court, owners of registered marks will face uncertainty in the application of the first sale doctrine. Without clarification, the public will be threatened with confusion when it purchases what it mistakenly believes are authentic goods and services from what it incorrectly perceives to be the member of a collective organization. Just as importantly, the precedents of this Court will face serious and unabated erosion. Without action from this Court, trademark infringers will take ever greater license in passing off their goods.

Granting *certiorari* will not entail any risk of an advisory opinion. The brief concurrence to the Ninth Circuit opinion by Judge Ferguson suggests that the Sebastian collective membership mark is invalid. There is no basis for concern; this case will remain justiciable.[7]

The concurring opinion focused upon Sebastian's membership in the Collective and its simultaneous ownership of the collective membership mark. A corporate member of a collective can own the collective membership mark. *In re Stencel Aero Engineering Corp.*, 170 U.S.P.Q. 292 (TTAB 1971), cited in Trademark Manual of Examining Procedure § 1304.05 (the "TMEP" - "Who May Own Membership Marks"). Moreover, the Trademark Office was aware of Sebastian's status as a corporate owner and member by virtue of Sebastian's application for the mark and its statements of use that are required before the mark can issue. (App. C5-6 n.1).

The concurring opinion based its determination of the invalidity of the collective membership mark on an inapposite case. *F.R. LePage Bakery v. Roush Bakery Products Company*, 851 F.2d 351 (Fed. Cir. 1988) *withdrawn, vacated and remanded*, 863 F.2d 43 (Fed. Cir. 1988), *vacated and modified*, 13 U.S.P.Q.2d 1045 (TTAB 1989) involved a member of a collective engaged in similar activities to those of the collective membership. It was making and selling its own wares under the collective mark. In contrast, Sebastian is not a salon, it is not in competition with the other Collective mem-

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[7] When the entire three judge panel had occasion to review its decision in the context of respondent's motion for fees, Judge Ferguson joined the majority in agreeing that:

> As this opinion indicates, difficult issues were raised by this appeal. . . . [Sebastian's] brief was professionally written and raised important legal questions.

(App. B1).

bers, and its relationship to the Collective is entirely different than the one in *LePage*. The district court clearly recognized the difference between *LePage* and *Stencel*, understood that they were not in conflict, and that *Stencel* and the TMEP prevailed. (App. C6 n.1).

This Court must act to preserve the consumer protection fundamental to the Lanham Act. The Ninth Circuit, relying on this Court's decision in *Prestonettes*, whitewashed deliberate misrepresentation and public confusion with the imprimatur of the first sale doctrine. Once again, in a trademark case the Ninth Circuit has taken the road less travelled "to justify a blanket prohibition" to cure "an occasional problem." *Qualitex Company v. Jacobson Products, Inc.*, 115 S. Ct. 1300, 131 L.Ed.2d 248, 257 (1995).

CONCLUSION

The Petition for Writ of Certiorari should be granted.

DATED: August 7, 1995.

Respectfully submitted,

EVAN FINKEL
Counsel of Record

Of Counsel
RICHARD H. ZAITLEN
SAMUEL L. ALBERSTADT

SPENSLEY HORN JUBAS & LUBITZ

Counsel for Petitioner
SEBASTIAN INTERNATIONAL, INC.